

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL SIX)

Docket No. RM2020-13

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
REGARDING PROPOSAL SIX
(December 8, 2020)

On November 24, 2020, initial comments in this docket were filed by the Public Representative, and by a joint consortium of mailers (MPA, PostCom, and ACMA). The mailers encourage the Commission to approve the proposal. Joint Comments at 3, 7. The Public Representative, however, offers a broadside of arguments to discount the solid empirical results and the logical operational rationales upon which Proposal Six is based. The Postal Service hereby offers its reply comments.¹ As outlined below and explained more fully in the accompanying report by Dr. Bozzo, nothing presented by the Public Representative should deter the Commission from acceptance of Proposal Six as an improvement in the overall quality, accuracy, and completeness of mail processing cost variability estimates.

There are three main shortcomings in the PR Comments. Given their technical nature, these topics will be addressed in detail in a separate report by Dr. Bozzo that

¹ A separate motion has been submitted by the Postal Service today seeking leave to file these reply comments. It also may be noted that the PR Comments were most recently revised on November 30, 2020, and any references herein will be to that revised version.

accompanies these comments as an electronically-attached pdf file.² Briefly, however, they can be summarized as follows.

First, the Public Representative fails to appreciate the hugely significant changes in real world circumstances since these matters were last addressed in omnibus rates cases under the prior statutory regime that was superseded by the PAEA in 2006. As Dr. Bozzo elaborates, beyond the patently obvious massive overall volume declines, the operating environment has evolved considerably – mailflows are less complex, and manual processing plays a much smaller role. Additionally, current data collection methods are more reliable than those employed previously. Contrary to the assertions by the Public Representative, the relatively simple models advanced in Proposal Six are entirely appropriate at this time for the joint purposes of assessing the validity of the established assumption of perfectly proportional cost responses to volume changes, and of supplying improved alternative empirical estimates.

Second, the Public Representative's discussion of current-system operations has significant errors. Based on his misreading of the Variability Report, he erroneously suggests that staffing flexibility in flats operations should have increased, when in fact the opposite is true. He also confuses observations counts in the MODS dataset for machine counts, completely undermining his evaluation of machine inventories. These portions of his comments lack merit.

Third, the Public Representative's critiques of various details of the econometric methodology in Proposal Six do not withstand scrutiny. In a number of cases, the

² A variety of public materials supporting Dr. Bozzo's report are provided in USPS-RM2020-13-5, while one nonpublic file is submitted under seal in USPS-RM2020-13-NP4.

Public Representative omits or ignores justifications for Proposal Six methods discussed in the Variability Report and subsequent responses to Chairman's Information Requests. With respect to the data screening methods used in Proposal Six, the Public Representative mishandles his intended examination of the distribution of labor productivity by extracting observations from the tails of the distributions of workhours themselves. As a result, he mistakenly contends that Proposal Six improperly omits presumptively valid observations that actually are included in the analysis. Furthermore, Dr. Bozzo shows that the Proposal Six results subject to the critiques are justifiable and/or robust to certain alternative specifications, notably substituting MODS FHP for TPF as the sorting output measure. The Proposal Six results are based on solid econometric analysis, and the Public Representative has failed in his attempts to show that they are not.

Conclusion

Notwithstanding arguments to the contrary by the Public Representative, for the reasons explained by Dr. Bozzo in his reply to the Public Representative's filing, Proposal Six should be approved as submitted.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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